

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 EA-07 ISO-00 IO-10 EB-07 AGR-05 TAR-01

AID-05 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 USIA-06

TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01

OMB-01 NSC-05 SS-15 STR-04 CEA-01 DODE-00 PM-04 H-02

L-03 PA-01 PRS-01 INT-05 ABF-01 /130 W
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R 121223Z AUG 75

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 592

INFO AMEMBASSY COLOMBO

AMEMBASSY DACCA

AMEMBASSY ISLAMABAD

AMEMBASSY KABUL

KATHMANDU

AMEMBASSY LONDON

AMEMBASSY MOSCOW

AMEMBASSY PARIS

AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

AMCONSUL HONG KONG

AMCONSUL KARACHI

AMCONSUL LAHORE

USLO PEKING

CINCPAC

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SUBJ: ECONOMIC DEVELOPMENTS

REF: NEW DELHI 10402

SUMMARY. WHOLESale PRICE INDEX HAS MOVED MARGINALLY HIGHER. THE GOVERNMENT IS SIMPLIFYING ITS EXPORT LICENSING SYSTEM AND IS PLANNING OTHER MEASURES DESIGNED TO INCREASE EXPORTS. TAX INSPECTION TEAMS CONTINUE THEIR RAIDS ON HOUSES AND APARTMENTS IN NEW DELHI AND OTHER MAJOR CITIES. END SUMMARY.

1. ACCORDING TO LATEST (AUGUST 11) ECONOMIC TIMES INDEX, WHOLESALE PRICES FOR ALL MAJOR ITEMS ARE MARGINALLY HIGHER COMPARED TO THE WEEK BEFORE. BOMBAY AND CALCUTTA REPORT THAT PRICES THERE HAVE GENERALLY LEVELLED OFF. EIGHT FERTILIZER COMPANIES HAVE REDUCED PRICES ON THEIR PRODUCTS TO ENCOURAGE HIGHER FERTILIZER USE THIS CROP SEASON. THE GOI HAS REPORTEDLY DECIDED TO REVISE THE PRICE STRUCTURE OF THE DRUG INDUSTRY WITH A VIEW TO LOWERING THE PRICES OF SOME MASS CONSUMPTION DRUGS. ALSO, THE PARLIAMENT HAS PASSED A NEW TAX BILL THAT INCLUDES AN INCREASE IN THE GENERAL RATE OF SALES TAX IN DELHI FROM 5 TO 7 PERCENT AND PLUGGING OF LOOPHOLES.

2. GOVERNMENT CONTINUES TO PRESS ITS EXPORT PROMOTION DRIVE. AT A SPECIAL BOARD OF TRADE MEETING ON AUGUST 5, PRIME MINISTER GANDHI SAID THAT LICENSING FOR EXPORTS OF UP TO 190 LISTED COMMODITIES (OUT OF 300) WOULD BE ELIMINATED. SHE PROMISED THAT LICENSING PROCEDURES FOR THE REMAINING ITEMS WOULD BE DRASTICALLY SIMPLIFIED. (WE SHALL BE REPORTING ON THESE DECISIONS IN FULLER DETAIL BUT DOUBT THAT THEY ARE ECONOMICALLY SIGNIFICANT.) ACCORDING TO THE MINISTRY OF COMMERCE, THE GOI WILL ELIMINATE TARIFF DUTIES ON RAW MATERIALS AND COMPONENTS IMPORTED AGAINST ADVANCE LICENSES FOR EXPORT PRODUCTION. (EXPORTERS HAVE BEEN REQUIRED TO PAY THE DUTIES BUT THEN WERE ENTITLED TO CLAIM REFUND FROM THE GOI.) THE GOVERNMENT ALSO REPORTEDLY PLANS TO INCREASE CASH SUBSIDIES TO PRODUCERS OF EXPORT ITEMS.

3. INDUSTRY REPRESENTATIVES AT THE BOARD OF TRADE MEETING ASKED FOR ADDITIONAL INCENTIVES TO PRODUCE FOR THE EXPORT MARKET AND WANTED PERMISSION TO FLOAT FINANCIAL PAPER IN THE U.S., EUROPE AND ARAB COUNTRIES FOR THE ESTABLISHMENT OF NEW INDUSTRIES HERE. IN ANOTHER DEVELOPMENT, THE PARLIAMENT PASSED LEGISLATION SEPARATING LIMITED OFFICIAL USE

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RATING THE INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI) FROM THE RESERVE BANK OF INDIA. THE PURPOSE OF IDBI IS TO COORDINATE ACTIVITIES OF VARIOUS DEVELOPMENTAL FINANCIAL INSTITUTIONS. COMMERCE MINISTER CHATTOPADHYAYA SAID THAT THE GOI WAS CONSIDERING THE ESTABLISHMENT OF A SEPARATE ORGANIZATION TO PROVIDE DEFERRED PAYMENT TERMS FOR CAPITAL GOODS EXPORTS BY EITHER RESTRUCTURING THE EXPORT SECTION OF IDBI OR SETTING UP AN IDBI SUBSIDIARY.

4. FINANCE MINISTER SUBRAMANIAM TOLD THE PARLIAMENT ON AUGUST 4 THAT THERE WAS NO CHANGE IN THE GOI POLICY ON NATIONALIZATION. HE SAID THAT THE GOVERNMENT WOULD NOT HESITATE TO TAKE OVER ANY INDUSTRY IF IT WAS NECESSARY FOR THE HEALTH OF THE CONOMY AND IN THE PUBLIC INTEREST, BUT THAT IT WOULD NOT NATIONALIZE FOR THE SAKE OF NATIONALIZATION.

5. INCOME TAX SQUADS CONTINUE THEIR RAIDS ON LUXURY HOUSES AND APARTMENTS IN NEW DELHI, BOMBAY, CALCUTTA AND MADRAS. SUMMARY PROCEDURES TO SPEED UP REVISION OF TAX ASSESSMENTS MAY BE IMPOSED. THE PLANNED REQUISITION OF VACANT APARTMENTS IN BOMBAY TO ELIMINATE BLACK MONEY TRANSACTIONS HAS RESULTED IN A CONSTRUCTION STANDSTILL THERE. THE ECONOMIC TIMES REPORTS THAT 500 BUILDING PROJECTS IN BOMBAY ARE BEING HELD UP AND 200,000 CONSTRUCTION WORKERS ARE OUT OF JOBS.

COMMENT: FOR URBAN DWELLERS THE ANTI-TAX EVASION DRIVE IS ONE OF THE FEW CONCRETE REALITIES OF THE CHANGED POLITICAL SITUATION.
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